A

SYNOPSIS

On

DETERMINANTS AFFECTING FINANCIAL BEHAVIOUR OF INVESTORS

Submitted to

Lingaya's Vidyapeeth

Old Faridabad, Haryana

In partial fulfillment for the requirement of

Ph.D. (Management)

Supervisor :	**Submitted By:**
Dr. Jivan Kumar Chowdhury	**Manju Kumari**
HOD of School of Management and Commerce	**Ph.D. Scholar**
Lingaya's Vidyapeeth	**17PHMG003W**

DETERMINANTS AFFECTING FINANCIAL BEHAVIOUR OF INVESTORS

1.1Introduction

In the recent years, Behavioural finance has gained prominence in the academic research arena that dwells upon the ways people do interpret and act upon information for making investment decisions. Within behavioural finance it is assumed that characteristics of market individuals and information structure influence investment decisions of individuals and market outcomes as well. In conventional financial theory, investors are assumed to be rational wealth maximisers, following basic financial rules and basing their investment strategies purely on the risk-return consideration. However, in practice, the level of risk investors are willing to undertake is not the same, and depends mainly on their personal attitudes to risk.

There are many studies which have extensively researched the financial behaviour of an individual. The financial behaviour of an individual is studied using various variables like sociodemographic variables, attitude variables, knowledge variables, locus of control, trust etc. The different variables are shown to be associated with the financial behaviour in different studies. But then these are stand alone studies which have not considered all these variables in a comprehensive manner. The present study is an attempt to plug in this gap and also evolve new avenues to manage the investment avenues of the investors.

In the backdrop of this study aims to identify the determinant factors affecting the investment decisions of investors, socio-economic and demographic determinants, psychographic determinants, the various finance options, the enablers and deterrents in their investment decisions, sources of their influence and most importantly the attitude of the investors towards the investment decisions. So, this study intends to develop deep insight into the arena of Behavioural finance to investigate and explain the determinant factors that exert effects on investment decision making and thereupon the financial market as well. This is also reinforced by the extraordinary growth in the investment sector both in terms of volume and number of investors in India over the past decade due to the deregulation of Indian financial sector. There has been a spurt of various investment products with numerous options to lure the investors to invest in terms of rise in regional stock exchanges in India that has increased mianfolds. The investor has not only to manage just his shares or debentures but a portfolio of his investment plans right from being salaried to enjoying benefits of his dividends to retirement plans. Infact, the investment scenario of Indian Financial market wears a new look, with an overwhelming response not only from the Indian investors but also from foreign institutional investors. At the macro level also, investment decisions contributes substantially in the economic development of a nation. But this is offset by high volatility and risk proneness that must be addressed correctly to reap rich dividends to the multistakeholders, specially the investors. This will enrich through implications to academicians, investors and portfolio managers to understand the reasons causing irrationality in the markets.

1.2 Literature Review

Viswanadham, Edward, Dorika and Mwakapala (2014) this study attempts to identify the factors influencing the buying behaviour of investors in Tanzania Equity market. Data was collected with

the help of interview, questionnaire and documentary evidence. It was found in the paper that all listed companies give more importance to the factors like quality management decisions, building brand, transparency in settlement issues. Specifically, companies should constantly review the interest rates and observe alternative companies marketing strategies to acquire better position in market.

Srinivasa and Rasure(2011) This is an empirical survey of the factors, which mostly influence individual investor behaviour in the Indian stock market. The results revealed that there seems to be a certain degree of correlation between the factors that behavioural finance theory and previous empirical evidence identify as the influencing factors for the average equity investor, and the individual behaviour of active investors in the Bombay Stock Exchange (BSE) influenced by the overall trends prevailing at the time of the survey in the BSE.

Geetha and Ramesh(2011) examinedon the people‟s choice in investment avenues of Kurumbalur. The main objective of this paper is to know the factor that influences investment behaviour of the people and to know about the attitude of the respondents towards different investment choices. Data were collected using structured questionnaires. After analysis and interpretation of data it is concluded that in Kurumbalur respondents are medium aware about various investment choices but they do not know aware about stock market, equity, bound and debentures. Findings show that all age groups give more important to invest in Insurance, NSC, PPF and bank deposit.

Parimalakanthi (2015) This paper aims to find the behaviour of individual investors from Coimbatore city towards available investment avenues in Indian financial markets. This also

analyse factors affecting the Investment decision and to find out the **risk tolerance level of individual investors with respect to demographic variables.**. This research paper depicts that **investor‟s education is** immensely important for the present day investors in Coimbatore. The study also concludes that safety was also a foremost preferred aspect in fixed income and investment for safety. Capital appreciation was the foremost preferred aspect in long term investment.

The study conducted by Cole et al (2010) shows that **financial literacy** is a significant factor to predict financial behaviour in emerging market countries. The increased level of financial literacy motivates individuals to save more and better manage their financial risks. The demand of the financial products also increases with increase in levels of financial literacy and there is an overall financial development. The educated customers would make better financial decisions. It leads to increased competition in financial services sector and subsequently more efficient allocation of capital within society.

In one study by Vanessa et al (2005) determined the relationship between **consumer financial knowledge, income and locus of control (LOC) on financial behaviour**. The Locus of Control construct is defined as the relatively stable propensity to see the world in a particular way, capturing general beliefs about the causes of rewards and punishments (Rotter 1966). Individuals with internal LOC expect that their actions will cause the outcomes and are motivated enough to work towards achieving their desired outcomes. (Hoffman et al, 2000). On the other hand, individuals with external LOC thinks that the particular events are the result of luck or chance and

therefore, are less likely than internals to master the skills necessary to achieve their goals (Zimmerman, 1995).

Harrison (2003) stated that **past investment experience and expertise of investors** provides them with risk awareness and so have become important commodity risk assessment factors in future. Some personal traits such as **risk preference, and personal experience affect risk assessment and awareness**. The propensity to build up risk can further affect actual behaviour, where risk refers to how far decision makers are prepared

The study in Ghana done by Krah et al (2014) concluded that there is a significant relationship between **budgeting and educational level, income level and age of households**.Hilgert et al (2003) concluded in their study that on the one hand, increase in financial knowledge improves financial behaviour but on the other hand, financial education improves financial behaviour through increased knowledge. The financial education programmes help people to identify their financial goals, show how small savings accumulate over time and generally, increases the motivation of the individuals to engage in prudent cash flow practices, save and invest.

The study done by Borden et al (2008), questioned the link between knowledge and behaviour. It was suggested that whereas student intentions towards more responsible behaviour was improved by greater knowledge, it did not necessarily indicate if the students follow through with their plans.

An exploratory analysis done by Jones (2005) did not offer any evidence of a linkage between credit card debt behaviour and financial knowledge based on a 6-item measure. On the other hand,

Robb and Sharpe (2009) noted a significant relationship between credit card balance and financial knowledge. The probability of individuals to revolve a balance, to make only the minimum payments or to take cash advances are impacted by the knowledge of an individual.

Research by Courchane (2005) indicated that **self-assessed knowledge** was one of the most significant factors in determining financial behaviour. He actually emphasized that self-assessed knowledge matters much more than the 'objective' knowledge. The self-assessed financial knowledge are the basic financial rules of thumb like not to spend more than what is being earned, pay bills on time, and do the basic budgeting. The objective knowledge is all about the ability to understand the discount rates or the intricacies of credit reports. He further concluded that financial knowledge can improve financial behaviour. The study by Robb et al (2011) has shown that relationship between financial behaviour and financial knowledge holds good for both objective and subjective knowledge.Their study find out that objective and subjective financial knowledge have a low level of correlation and both have a significant impact on financial behaviour. The subjective financial knowledge was measured as the level of financial confidence in the present study. In their study, it was found out that people who are more confident about their financial knowledge engage in more responsible financial behaviour.

The financial behaviour was described as the financial practices exhibit by an individual in the study conducted by Robb &Woodyard (2011). The financial practices were further divided into six categories viz., emergency fund, credit report, no overdraft, credit card payoff, retirement account and risk management. Emergency fund considers if a person has set aside the funds for any emergency like medical ailment, job loss, economic downturn etc

1.2Rationale of the Study

Post liberalization in 1991, the Indian financial sector has opened up. The investors got new products in which they can make long term investments. Even the insurance sector, which was the monopoly of LIC was opened to foreign entities. This brought the innovative investment cum insurance plans to the customers in which they could invest for the long term.

New players in financial market entered and existing players revamped their operations to fight the competition. The bank is no longer a place where a customer goes and deposits cash and gets his passbook updated. It is also advising the customers about the new investment products and advising them to invest in them. Many of the banks tie-up with the insurance companies and started selling insurance products to its customers. The customer is no longer dependent upon the ubiquitous stock brokers for making investments in stock markets, they can now interact with big brokerage houses (both foreign and national), gets the research based advice from them and can make conscious decision for making investments.

The major challenge for these financial institutions is to understand the attitude of the customers. What motivates them for making investments in a particular product through a particular financial entity, what are the most important factors which impacts his decisions and finally, what is his attitude towards money management and financial planning. The present study tries to address all this.

1.4 Research Objectives & Hypotheses

The main objectives of this study will be

Objective 1: To identify the various determinants and patterns in the investment decisions of the investors

Proposed Hypothesis: The determinant factors are significantly associated impacting the investment decision of the investors.

Objective 2: To examine and understand the socio-demographic profile shaping the financial attitude of the investors.

Proposed Hypothesis: The socio-demographic factors are significant in shaping the financial attitude of the investors.

Objective 3: **To ascertain the relative impact of socio-demographic determinants as shaping the financial behaviour of the investors.**

Proposed Hypothesis : The socio-demographic variables would be significantly associated with financial behaviour of the investors.

Objective 4: To understand the various **psychographic variables** forming the financial attitude of the investors.

Proposed Hypothesis : The psychographic variables would be significantly associated with financial behaviour of the investors.

Objective 5: To examine the relative impact of the **financial attitude variables on the financial behaviour of the investors**

Proposed Hypothesis: The financial attitude determinants/variables will have a significant impact on the financial behaviour of the investors.

1.5 Conceptual Framework

Financial behaviour Theories

In case of financial services, the Trans theoretical Model of change is used to change the financial behaviour of the person through educational programmes. It involves five integrated stages of: 1) awareness of the problem and a necessity to change financial behaviour, 2) motivation for change,3) developing skills for financial behaviour change, 4) initial adoption of new financial behaviour, and 5) maintenance and integration of new financial behaviour.

The Theory of Reasoned Action **TRA** model uses the social-psychological approach to understand and predict the determinants of health-behaviour. It states that people in a certain way and they use a rational decision making process to plan their actions. According to this theory, behaviour is influenced by intention to perform the behaviour, which in turn is influenced by three major variables viz., subjective norms, attitudes and self-efficacy. TRA can be applied to understand and predict the determinants of financial behaviour.

RRM model is used to label high risk behaviours as problematic, to make commitment to change those behaviours and to seek and enact the solutions to reduce high risk activities. It can be applied to financial behaviours to determine the high risk financial behaviour and seeking knowledge and information to take actions to reduce the financial risk.

The theory of **SCT** suggests that behaviour change is affected by environmental influences, personal factors and attributes of behaviour itself. It emphasises on self-efficacy, i.e., person's belief in his or her capability to perform the behaviour. In financial behaviour, self-efficacy refers

to one's self-confidence in the ability to take financial action. It also explains the environmental influences that shape the financial attitudes of an individual.

Last but not the least is the **RPM theory w**hich is based upon set of cognitive and behavioural changes to prevent or limit relapse episodes. The factors that cause relapse are negative emotional states, limited coping skills, social pressure, interpersonal conflict, limited social support, high risk situations and stress. Relapse prevention is to teach skills to avoid brief return to substance use (lapse). This model can be applied in financial behaviour to prevent people from taking high risks financial behaviour. It includes identifying high-risk financial situations and providing appropriate solutions to prevent their relapse.

1.6 Research Methodology

In the present study exploratory cum descriptive research design will be used. The exploratory research will be done to analyse the existing literature and to formulate the objectives and hypothesis of the problem in the more precise manner. The descriptive research follows the exploratory research, in which the questionnaire would be made, then survey would be done, data would be analysed, hypotheses would be tested and finally the conclusions will be drawn.

The questionnaire of the study will be formed keeping in mind the various objectives. It will be formed using standard scales used earlier in several studies. The questionnaire will also pretest. The questionnaire will be then administered to the target population using sampling techniques. The target population will be the individuals who will be taking investment decisions either singly or jointly in their households. The sampling techniques used in the present study will be

judgemental and snowball sampling techniques. The sample size will be determined statistically and once the responses are collected then the data will be properly coded and verified in advance.

Questionnaire Items

In this context, the socio-demographic factors undertaken in this study will be :

- Gender of the investor,
- Age group,
- Education level
- Occupation
- Marital status
- Household annual income
- Family size
- Duration of the investments,
- Frequency of the review of the portfolio

Further, the financial attitude of the investor will be examined by these variables which will be included in the questionnaire, as :

- tendency towards savings
- financial knowledge
- risk tolerance
- profit orientation/ROI
- opinion leadership

1.7 Data Analysis

For this study, before testing the hypotheses preliminary data screening and testing will be done. The Kolmogorov-Smirnov test will be applied on data to check the status of normality. After that, relevant statistical tools will be used to analyse the data. The various statistical tools used to analyse the data will be factor Analysis, ANOVA, Pearson correlation, Multiple and hierarchical regression. The results of these statistical tools will be suitably interpreted for the present study.

1.8 Scheme of Chapterization

Chapter 1: INTRODUCTION

- 1.1 Introduction
- 1.2 Background and Problem Statement
- 1.3 Rationale of the study
- 1.4 Objectives of the study
- 1.5 Research Methodology
- 1.6 Significance of study
- 1.7 Structure of thesis

Chapter 2: THEORETICAL FRAMEWORK AND LITERATURE REVIEW

- 2.1 Introduction
- 2.2 Theoretical Framework & Literature Review
- 2.3 Review of Literature studies
- 2.4 Research gaps addressed
- 2.5 Conclusion

CHAPTER 3: RESEARCH METHODOLOGY

3.1.1 Introduction

3.1.2 Objectives & Research Approach

3.1.3 Research Design

3.1.4 Sampling Methodology

3.1.5 Data Collection

3.1.6 Techniques of Data Analysis

3.1.7 Limitations of the study

3.1.8 Conclusion

CHAPTER 4: ANALYSIS AND FINDINGS

4.1.1 Introduction

4.1.2 Results & Discussions

4.1.3 Summary of Main findings

4.1.4 Conclusion

CHAPTER 5: CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

5.2 Overview of Findings & Discussions

5.3 Contributions of the Study

5.3.1 Theoretical Contributions

5.3.2 Practical and Managerial Implications

5.4 Limitations of the Study

5.5 Scope of the study

REFERENCES

- Borden, L. M., Lee, S. A., Serido, J. & Collins, D. (2008). Changing college students' financial knowledge, attitudes, and behavior through seminar participation. *Journal of Family Economic Issues*, *29*(1), 23-40.
- Cole, S., Sampson, T. & Zia, B. (2010). Prices or Knowledge- What drives demand for financial services in emerging markets, *Harvard Business School*, Working paper.
- Courchane, M. & Zorn, P. (2005). Investor Literacy and Creditworthiness. Report prepared for: Federal Reserve System's Community Affairs, Chicago.
- Geetha, N., & Ramesh, D. M. (2011). A Study on People‟s Preferences in Investment Behaviour. IJEMR, Vol 1 Issue 6.
- Hilgert, M. A., Hogarth, J. M. & Beverly, S.G. (2003). Household financial management: The connection between knowledge &behavior. *Federal Reserve Bulletin*, July 2003, 309-322
- Jones, J. E. (2005). College students' knowledge and use of credit. *Journal of Financial Counseling and Planning*, 16(2), 9-16.
- K Parimalakanthi and M Ashok Kumar (2015), "A Study pertaining to Investment Behaviour of Individual Investors in Coimbatore University", International Journal of Advanced Research in Computer science and Management Studies, Vol.3, No.6, pp.148-157
- Krah, R.Y.,Aveh, F.K. &Addo, R. (2014). An exploratory study of financial management practices among Ghanaian households, *International Journal of Management & Sustainability*, 3 (7), 393-414.

- Reserve Bank of India (2014), 'Committee on Comprehensive Financial Services for Small Businesses and Low Income Households.'
- Robb, C. A., & Sharpe, D. L. (2009). Effect of personal financial knowledge on college students' credit card behavior. *Journal of Financial Counseling and Planning, 20*(1), 25-40.
- Srinivas, B. G., & Dr, K. (2010). Factors Influencing And Individual Investor Behaviour:The Study Of Indian Stock Market. International Journal Of Research In Commerce,Economic,Management, vol 1., 78-82
- Vanessa, P.G. & Marlene, M. D. (2005). Who is in control? The role of self-perception, knowledge, and income in explaining investor financial behaviour. *Journal of Investor Affairs*, 39 (2), 299-313.
- Viswanadham, N., N, E., Dorika, & D.Mwakapala. (2014). A Study of Perceptual Factors Influencing Investors buying Behavior in Tanzanian Equity Market. Journal of Finance and Investment Analysis, vol. 3, no.2, 99-108.

****